

JORDAN VALLEY DISTRICT LIBRARY  
Charlevoix County, Michigan

FINANCIAL REPORT WITH  
SUPPLEMENTARY INFORMATION

Year Ended June 30, 2005

## AUDITING PROCEDURES REPORT

Issue under P.A. 2 of 1968, as amended. Filing is mandatory.

<b>Local Government Type</b> <input type="checkbox"/> City <input type="checkbox"/> Township <input type="checkbox"/> Village <input checked="" type="checkbox"/> Other		<b>Local Government Name</b> Jordan Valley District Library	<b>County</b> Charlevoix
<b>Audit Date</b> June 30, 2005	<b>Opinion Date</b> September 8, 2005	<b>Date Accountant Report Submitted to State:</b> November 15, 2005	

We have audited the financial statements of this local unit of government and rendered an opinion on financial statements prepared in accordance with the Statements of the Governmental Accounting Standards Board (GASB) and the *Uniform Reporting Format for Financial Statements for Counties and Local Units of Government in Michigan* by the Michigan Department of Treasury.

**RECEIVED**

DEPT. OF TREASURY

We affirm that:

1. We have complied with the *Bulletin for the Audits of Local Units of Government in Michigan* as revised.
2. We are certified public accountants registered to practice in Michigan.

We further affirm the following. "Yes" responses have been disclosed in the financial statements, including the notes, or in the report of comments and recommendations

LOCAL AUDIT & FINANCE DIV.

You must check the applicable box for each item below.

- |                                                                     |                                                                                                                                                                                                                                                                                                                                      |
|---------------------------------------------------------------------|--------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| <input type="checkbox"/> yes <input checked="" type="checkbox"/> no | 1. Certain component units/funds/agencies of the local unit are excluded from the financial statements.                                                                                                                                                                                                                              |
| <input type="checkbox"/> yes <input checked="" type="checkbox"/> no | 2. There are accumulated deficits in one or more of this unit's unreserved fund balances/retained earnings (P.A. 275 of 1980).                                                                                                                                                                                                       |
| <input type="checkbox"/> yes <input checked="" type="checkbox"/> no | 3. There are instances of non-compliance with the Uniform Accounting and Budgeting Act (P.A. 2 of 1968, as amended).                                                                                                                                                                                                                 |
| <input type="checkbox"/> yes <input checked="" type="checkbox"/> no | 4. The local unit has violated the conditions of either an order issued under the Municipal Finance Act or its requirements, or an order issued under the Emergency Municipal Loan Act.                                                                                                                                              |
| <input type="checkbox"/> yes <input checked="" type="checkbox"/> no | 5. The local unit holds deposits/investments which do not comply with statutory requirements. (P.A. 20 of 1943, as amended [MCL 129.91], or P.A. 55 of 1982, as amended [MCL 38.1132]).                                                                                                                                              |
| <input type="checkbox"/> yes <input checked="" type="checkbox"/> no | 6. The local unit has been delinquent distributing tax revenues that were collected for another taxing unit.                                                                                                                                                                                                                         |
| <input type="checkbox"/> yes <input checked="" type="checkbox"/> no | 7. The local unit has violated the Constitutional requirement (Article 9, Section 24) to fund current year earned pension benefits (normal costs) in the current year. If the plan is more than 100% funded and the overfunding credits are more than the normal cost requirement, no contributions are due (paid during they year). |
| <input type="checkbox"/> yes <input checked="" type="checkbox"/> no | 8. The local unit uses credit cards and has not adopted an applicable policy as required by P.A. 266 of 1995 (MCL 129.241).                                                                                                                                                                                                          |
| <input type="checkbox"/> yes <input checked="" type="checkbox"/> no | 9. The local unit has not adopted an investment policy as required by P.A. 196 of 1997 (MCL 129.95).                                                                                                                                                                                                                                 |

### We have enclosed the following:

	Enclosed	To Be Forwarded	Not Required
The letter of comments and recommendations.	X		
Reports on individual federal financial assistance programs (program audits).			X
Single Audit Reports (ASLGU).			X

<b>Certified Public Accountant (Firm Name)</b> Campbell, Kusterer & Co., P.C.			
<b>Street Address</b> 512 N. Lincoln, Suite 100, P.O. Box 686		<b>City</b> Bay City	<b>State</b> MI
<b>Accountant Signature</b> Campbell, Kusterer & Co., P.C.		<b>Zip</b> 48707	

JORDAN VALLEY DISTRICT LIBRARY  
Charlevoix County, Michigan

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# CAMPBELL, KUSTERER & CO., P.C.

CERTIFIED PUBLIC ACCOUNTANTS

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## INDEPENDENT AUDITOR'S REPORT

September 8, 2005

To the Library Board  
Jordan Valley District Library  
Charlevoix County, Michigan

We have audited the accompanying financial statements of the governmental activities and each major fund of Jordan Valley District Library, as of and for the year ended June 30, 2005, which collectively comprise the Library's basic financial statements as listed in the table of contents. These financial statements are the responsibility of Jordan Valley District Library's management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities and each major fund of Jordan Valley District Library as of June 30, 2005, and the respective changes in financial position thereof, for the year then ended in conformity with accounting principles generally accepted in the United States of America.

The Management's Discussion and Analysis and budgetary comparison information listed in the table of contents are not a required part of the basic financial statements but are supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management, regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

*Campbell, Kusterer & Co., P.C.*

CAMPBELL, KUSTERER & CO., P.C.  
Certified Public Accountants

JORDAN VALLEY DISTRICT LIBRARY  
Charlevoix County, Michigan

MANAGEMENT'S DISCUSSION AND ANALYSIS  
For the year ended June 30, 2005

The Management's Discussion and Analysis report of the Jordan Valley District Library covers the library's financial performance during the fiscal year ended June 30, 2005.

FINANCIAL HIGHLIGHTS

Our financial status remained stable throughout the FY 2004-2005. The library income from property taxes was only slightly higher than budgeted so there were no significant changes in the tax base.

The library revenue sources were as follows:

District Millage.....	\$262,674.98
Penal Fines.....	\$36,117.79
Other.....	\$25,617.56

Based on currently known facts, decisions or conditions, there is no reason to believe that the library may experience a change in its financial position.

OVERVIEW OF FINANCIAL STATEMENTS

This annual report consists of three parts, management's discussion and analysis, the basic financial statements and required supplementary information. The basic financial statements include two different kinds of statements that present different views of the Library and the notes to the financial statements.

The first two statements are entity-wide financial statements and provide both long and short-term information about our overall financial status. These statements present government activities.

The remaining statements are fund financial statements, which focus on individual parts of the Library in more detail.

The notes to the financial statements explain some of the information in the statements and provide more detailed data.

Required supplementary information further explains and supports the financial statement information with budgetary comparisons.

ENTITY-WIDE FINANCIAL STATEMENTS

The entity-wide statements report information about the Library as a whole using accounting methods used by private companies. The statement of net assets includes all of the Library's assets and liabilities. The statement of activities records all of the current year revenues and expenses regardless of when received or paid.

The two entity-wide statements report net assets and how they have changed. Net assets are the difference between the entity's assets and liabilities and this is one method to measure the entity's financial health or position.

Over time increases/decreases in the entity's net assets are an indicator of whether financial position is improving or deteriorating.

To assess overall health of the entity you may also have to consider additional factors such as tax base changes, facility conditions and personnel changes.

All of the activities of the Library are reported as governmental fund activities. This includes the General Fund.

JORDAN VALLEY DISTRICT LIBRARY  
Charlevoix County, Michigan

MANAGEMENT'S DISCUSSION AND ANALYSIS  
For the year ended June 30, 2005

FUND FINANCIAL STATEMENTS

The fund financial statements provide more detailed information about the Library's funds, focusing on significant (major) funds not the Library as a whole. Funds are used to account for specific activities or funding sources. Some funds are required by law or bond covenants. The Library Board also may create them. Funds are established to account for funding and spending of specific financial resources and to show proper expenditures of those resources.

The Library has the following types of funds:

**Governmental Funds:** All of the Library's activities are included in the governmental fund category. These funds are presented on the modified accrual basis, which is designed to show short-term financial information. You will note that the differences between the Library's entity-wide statements and the fund statements are disclosed in reconciling statements to explain the differences between them. The Library's governmental funds include the General Fund.

FINANCIAL ANALYSIS OF THE LIBRARY AS A WHOLE

The Library's net assets for governmental activities increased by \$1,919.19 during the fiscal year ended June 30, 2005, totaling \$885,734.57.

FINANCIAL ANALYSIS OF THE LIBRARY'S FUNDS

The General Fund's fund balance increased by \$15,085.35 during the fiscal year ended June 30, 2005, totaling \$435,179.20. The activities of the general fund have remained constant, consisting of salaries and benefits, purchases of materials, (books, books-on-tape and CD, music CDs, magazines, etc.) utilities, building maintenances, and programs. The revenues collected to fund the activities increased slightly due to an increase in taxable values in the district.

CAPITAL ASSET AND LONG-TERM DEBT ACTIVITY

**Capital Assets:**

The library did not incur any capital outlay expenditures this year.

**Long-Term Debt:**

- Land contract payable: The debt service payments for this fiscal year totaled \$36,036.97 (\$15,939.19 principal and \$20,097.78 interest).
- Copier contract payable: The debt service payments for this fiscal year totaled \$2,902.44 (\$2,302.41 principal and \$600.03 interest).
- Compensated absences payable: This long-term debt decreased by \$140.48 during this fiscal year from \$9,953.48 to \$9,813.00.

KNOWN FACTORS AFFECTING FUTURE OPERATIONS

The Library's plans for the future include more space for the Library. There may potentially be improvements made to the current building or building new at the property that was recently purchased.

CONTACTING ENTITY MANAGEMENT

This financial report is designed to provide taxpayers, creditors, investors and customers, with a general overview of the entity's finances and to demonstrate the entity's accountability for the revenues it receives. If you have questions concerning this report contact Dawn Pringle, Library Director, Jordan Valley District Library, P.O. Box 877, East Jordan, Michigan 49727. 231-536-7131 (phone) [jordan1@northland.lib.mi.us](mailto:jordan1@northland.lib.mi.us) (Email)

JORDAN VALLEY DISTRICT LIBRARY  
Charlevoix County, Michigan

STATEMENT OF NET ASSETS  
June 30, 2005

	<u>Governmental Activities</u>
ASSETS:	
CURRENT ASSETS:	
Cash in bank	<u>438 254 33</u>
Total Current Assets	<u>438 254 33</u>
NON-CURRENT ASSETS:	
Capital Assets	1 220 234 59
Less: Accumulated Depreciation	<u>(438 257 30)</u>
Total Non-current Assets	<u>781 977 29</u>
TOTAL ASSETS	<u><u>1 220 231 62</u></u>
LIABILITIES AND NET ASSETS	
LIABILITIES:	
CURRENT LIABILITIES:	
Accounts payable	<u>3 075 13</u>
Total Current Liabilities	<u>3 075 13</u>
NON-CURRENT LIABILITIES:	
Compensated absences payable	9 813 00
Contracts payable	<u>321 608 92</u>
Total Non-current Liabilities	<u>331 421 92</u>
Total Liabilities	<u>334 497 05</u>
NET ASSETS:	
Invested in Capital Assets, Net of Related Debt	460 368 37
Designated	136 002 42
Unrestricted	<u>289 363 78</u>
Total Net Assets	<u>885 734 57</u>
TOTAL LIABILITIES AND NET ASSETS	<u><u>1 220 231 62</u></u>

The accompanying notes are an integral part of these financial statements.

JORDAN VALLEY DISTRICT LIBRARY  
Charlevoix County, Michigan

STATEMENT OF ACTIVITIES  
Year ended June 30, 2005

	<u>Program Revenue</u>	<u>Governmental Activities</u>
		<u>Net</u>
	<u>Charges for Services</u>	<u>Revenue and changes in net Assets</u>
<u>FUNCTIONS/PROGRAMS</u>	<u>Expenses</u>	
Governmental Activities:		
District Library	<u>322 491 14</u>	<u>6 846 04</u>
		<u>(315 645 10)</u>
General revenues:		
Property taxes		262 674 98
State aid		3 285 83
Penal fines		36 117 79
Interest		6 587 16
Miscellaneous		<u>8 898 53</u>
Total General Revenues		<u>317 564 29</u>
Change in net assets		1 919 19
Net assets, beginning of year		<u>883 815 38</u>
Net Assets, End of Year		<u><u>885 734 57</u></u>

The accompanying notes are an integral part of these financial statements.



JORDAN VALLEY DISTRICT LIBRARY  
Charlevoix County, Michigan

BALANCE SHEET – GOVERNMENTAL FUND  
June 30, 2005

<u>Assets</u>	<u>General</u>
Cash in bank	
	<u>438 254 33</u>
Total Assets	
	<u>438 254 33</u>
<u>Liabilities and Fund Equity</u>	
Liabilities:	
Accounts payable	
Total liabilities	<u>3 075 13</u>
	<u>3 075 13</u>
Fund equity:	
Unreserved:	
Designated for automation	
Designated for building	6 479 25
Undesignated	129 523 17
Total fund equity	<u>299 176 78</u>
	<u>435 179 20</u>
Total Liabilities and Fund Equity	
	<u>438 254 33</u>

The accompanying notes are an integral part of these financial statements.

JORDAN VALLEY DISTRICT LIBRARY  
Charlevoix County, Michigan

RECONCILIATION OF BALANCE SHEET OF GOVERNMENTAL FUND TO THE STATEMENT OF NET ASSETS  
June 30, 2005

TOTAL FUND BALANCES – GOVERNMENTAL FUND

435 179 20

Amounts reported for governmental activities in the statement of  
net assets are different because –

Capital assets used in governmental activities are not financial resources and  
therefore are not reported in the governmental funds balance sheet:

Capital assets at cost  
Accumulated depreciation

1 220 234 59  
(438 257 30)

Long-term liabilities are not due and payable in the current period and therefore  
are not reported in the governmental funds

(331 421 92)

TOTAL NET ASSETS – GOVERNMENTAL ACTIVITIES

885 734 57

JORDAN VALLEY DISTRICT LIBRARY  
Charlevoix County, Michigan

STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE -  
GOVERNMENTAL FUND  
Year ended June 30, 2005

	<u>General</u>
Revenues:	
Property taxes	262 674 98
State aid	3 285 83
Charges for services	6 846 04
Penal fines	36 117 79
Interest	6 587 16
Miscellaneous	<u>8 898 53</u>
Total revenues	<u>324 410 33</u>
Expenditures:	
Culture - Library:	
Salaries	101 269 73
Fringe benefits	20 444 60
Travel and workshops	1 844 71
Supplies	48 489 23
Books and materials	26 466 28
Utilities	13 701 27
Insurance	4 924 00
Professional services	12 341 60
Contracted services	14 598 59
Repairs and maintenance	7 919 44
Property taxes	10 382 11
Miscellaneous	7 863 53
Debt service	<u>39 079 89</u>
Total expenditures	<u>309 324 98</u>
Excess of revenues over expenditures	15 085 35
Fund balance, July 1	<u>420 093 85</u>
Fund Balance, June 30	<u><u>435 179 20</u></u>

The accompanying notes are an integral part of these financial statements.

JORDAN VALLEY DISTRICT LIBRARY  
Charlevoix County, Michigan

RECONCILIATION OF THE STATEMENT OF REVENUE, EXPENDITURES AND CHANGES IN  
FUND BALANCE OF GOVERNMENTAL FUNDS TO THE STATEMENT OF ACTIVITIES

Year ended June 30, 2005

NET CHANGE IN FUND BALANCES – TOTAL GOVERNMENTAL FUNDS 15 085 35

Amounts reported for governmental activities in the Statement of Activities are different because:

Governmental funds report capital outlays as expenditures; in the Statement of Activities,  
these costs are allocated over their estimated useful lives as depreciation

Depreciation Expense (31 548 24)  
Capital Outlay -

Repayment of debt principal is an expenditure in the governmental funds, the repayment  
does not have an effect in the statement of activities but does reduce the debt  
balance in the statement of net assets.

Principal payments on long-term debt 18 382 08

CHANGE IN NET ASSETS OF GOVERNMENTAL ACTIVITIES 1 919 19

The accompanying notes are an integral part of these financial statements.

JORDAN VALLEY DISTRICT LIBRARY  
Charlevoix County, Michigan

NOTES TO FINANCIAL STATEMENTS  
June 30, 2005

Note 1 – Summary of Significant Accounting Policies

The accounting policies of the Jordan Valley District Library, Charlevoix County, Michigan, conform to generally accepted accounting principles as applicable to governmental units.

Reporting Entity

In accordance with the provisions of the Governmental Accounting Standards Board's Statement No. 14 "The Financial Reporting Entity," the general purpose financial statements of the Library contain all the Library funds and account groups that are controlled by or dependent on the Library's executive or legislative branches.

The reporting entity is the Jordan Valley District Library. The Library is governed by an appointed Library Board. As required by generally accepted accounting principles, these financial statements present the Library as the primary government.

Government-Wide and Fund Financial Statements

The government-wide financial statements, (the Statement of Net Assets and the Statement of Changes in Net Assets) report information on all of the nonfiduciary activities of the primary government. For the most part, the effect of interfund activity has been removed from these statements. Governmental activities, normally supported by taxes and intergovernmental revenues, are reported separately from business-type activities, which rely to a significant extent on fees and charges for support. All the Library's government-wide activities are considered governmental activities.

The Statement of Activities demonstrates the degree to which the direct expenses of a given function are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function. Program revenues include: (1) charges to customers or applicants who purchase, use or directly benefit from goods, services or privileges provided by a given function; and (2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function. Taxes, intergovernmental payments and other items not properly included among program revenues are reported as general revenue.

Measurement Focus, Basis of Accounting and Financial Statement Presentation

The government-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. Revenue is recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenue in the year for which they are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met. When an expense is incurred for purposes for which both restricted and unrestricted net assets are available, restricted resources are applied first.

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenue is recognized as soon as it is both measurable and available. Revenue is considered to be available if it is collected within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the government considers revenues to be available if they are collected within 60 days of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, expenditures relating to compensated absences, and claims and judgments are recorded only when payment is due.

JORDAN VALLEY DISTRICT LIBRARY  
Charlevoix County, Michigan

NOTES TO FINANCIAL STATEMENTS  
June 30, 2005

Note 1 – Summary of Significant Accounting Policies (continued)

Measurement Focus, Basis of Accounting and Financial Statement Presentation (continued)

The Library reports only one fund as follows:

- The General Fund is used to record the operations of the Library which pertain to maintaining and operating the Library. Included are all transactions related to the approved current operating budget.

Assets, Liabilities and Net Assets or Equity

Bank deposits and investments – Cash and cash equivalent investments include cash on hand, demand deposits, certificates of deposit and short-term investments with a maturity of three months or less when acquired. Investments are stated at fair value.

Receivables

Receivables have been recognized for all significant amounts due to the Library. Allowances for uncollectible accounts have not been provided for in that collection is not considered doubtful and any uncollected amount would be immaterial.

Inventories

All purchases of materials are reflected in expense when paid.

Property Taxes

Property taxes and other revenue that are both measurable and available for use to finance operations are recorded as revenue when earned.

Properties are assessed as of December 31 and the related property taxes become a lien on December 1 of the following year. These taxes are due on February 14 with the final collection date of February 28 before they are added to the county tax rolls. The Library 2004 tax roll millage rate was .8938 mills, and the taxable value was \$291,940,590.00.

Capital Assets

Capital assets are defined by the Library as assets with an initial cost of more than \$1,000.00 and an estimated useful life in excess of one year. Such assets are recorded at historical cost or estimated historical cost. Donated assets are reported at estimated fair market value at the date of donation. Additions, improvements and other capital outlays that significantly extend the useful life of an asset are capitalized. Other costs incurred for repairs and maintenance are expensed as incurred. Depreciation on all assets is provided on the straight-line basis over the following estimated useful lives:

Buildings, additions and improvements	50 years
Furniture and equipment	5-15 years

Compensated Absences (Vacation and Sick Leave)

The estimated current portion of the liability for vacation and sick leave benefits attributable to the Library's governmental funds is recorded as an expenditure and liability in the respective funds. The long-term portion is recorded in the general long-term debt account group. Employees are paid for part of unused sick leave upon termination of employment.

JORDAN VALLEY DISTRICT LIBRARY  
Charlevoix County, Michigan

NOTES TO FINANCIAL STATEMENTS  
June 30, 2005

Note 1 – Summary of Significant Accounting Policies (continued)

Post-employment Benefits

The Library provides no post-employment benefits to past employees.

Fund Equity

In the fund financial statements, governmental funds report reservations of fund balance for amounts that are not available for appropriation or are legally restricted by outside parties for use for a specific purpose. Designations of fund balance represent tentative management plans that are subject to change.

Note 2 – Budgets and Budgetary Accounting

The following procedures are followed in establishing the budgetary data reflected in these general purpose financial statements:

1. Prior to the beginning of the fiscal year, the proposed budget for each budgetary fund is submitted to the Library Board for consideration.
2. The proposed budgets include expenditures as well as the methods of financing them.
3. Public hearings are held to obtain taxpayer comments.
4. The budgets are adopted at the activity level by a majority vote of the Library Board.
5. The budgets are adopted on the modified accrual basis of accounting.
6. The originally adopted budgets can be amended during the year only by a majority vote of the Library Board.
7. The adopted budgets are used as a management control device during the year for all budgetary funds.
8. Budget appropriations lapse at the end of each fiscal year.
9. The budgeted amounts shown in these general purpose financial statements are the originally adopted budgets with all amendments that were approved by the Library Board during the fiscal year.

Note 3 – Deposits and Investments

Michigan Compiled Laws, Section 129.91, authorizes the Library to deposit and invest in the accounts of federally insured banks, credit unions, and savings and loan associations; bonds, securities and other direct obligations of the United States, or any agency or instrumentality of the United States; United States government or federal agency obligation repurchase agreements; banker's acceptance of United States banks; commercial paper rated within the two highest classifications, which mature not more than 270 days after the date purchase; obligations of the State of Michigan or its political subdivisions which are rated as investment grade; and mutual funds composed of investment vehicles which are legal for direct investment by local units of government in Michigan. Financial institutions eligible for deposit of public funds must maintain an office in Michigan.

JORDAN VALLEY DISTRICT LIBRARY  
Charlevoix County, Michigan

NOTES TO FINANCIAL STATEMENTS  
June 30, 2005

Note 3 – Deposits and Investments (continued)

The Library Board has designated one bank for the deposit of Library funds. The investment policy adopted by the board in accordance with Public Act 196 of 1997 has authorized investment in all investments authorized by state law as listed above.

The Library's deposits and investments are in accordance with statutory authority.

The Governmental Accounting Standards Board Statement No. 3, risk disclosures for the cash deposits are as follows:

	<u>Carrying Amounts</u>
Total Deposits	<u>438 254 33</u>

Amounts in the bank balances are without considering deposits in transit or uncleared checks.

	<u>Bank Balances</u>
Insured (FDIC)	103 112 48
Uninsured and Uncollateralized	<u>341 163 88</u>
Total Deposits	<u>444 276 36</u>

The Library did not have any investments as of June 30, 2005.

Note 4 – Capital Assets

Capital asset activity of the Library's Governmental activities for the current year was as follows:

	<u>Balance 7/1/04</u>	<u>Additions</u>	<u>Deletions</u>	<u>Balance 6/30/05</u>
Land and improvements	402 553 64	-	-	402 553 64
Furniture and equipment	289 689 95	-	-	289 689 95
Buildings, additions and improvements	<u>527 991 00</u>	<u>-</u>	<u>-</u>	<u>527 991 00</u>
Total	1 220 234 59	-	-	1 220 234 59
Accumulated Depreciation	<u>(406 709 06)</u>	<u>(31 548 24)</u>	<u>-</u>	<u>(438 257 30)</u>
Net Capital Assets	<u>813 525 53</u>	<u>(31 548 24)</u>	<u>-</u>	<u>781 977 29</u>



JORDAN VALLEY DISTRICT LIBRARY  
Charlevoix County, Michigan

NOTES TO FINANCIAL STATEMENTS  
June 30, 2005

**Note 5 – Long-Term Debt**

A summary of changes in long-term debt follows:

	<u>Balance 7/1/04</u>	<u>Additions</u>	<u>Deductions</u>	<u>Balance 6/30/05</u>
Contract payable – land	334 963 03	-	15 939 19	319 023 84
Compensated absences	9 953 48	-	140 48	9 813 00
Contract payable – copier	4 887 49	-	2 302 41	2 585 08
Total	<u>349 804 00</u>	<u>-</u>	<u>18 382 08</u>	<u>331 421 92</u>

**Note 6 – Contract Payable – Land**

On February 26, 2003, the Library obtained a loan in the amount of \$350,000.00 to partially fund the purchase of land. The contract requires fifteen annual payments of \$36,036.97 including interest. As of June 30, 2005, the outstanding principal balance was \$319,023.84.

<u>Due Date</u>	<u>Total</u>	<u>Interest</u>	<u>Principal</u>
2/26/06	36 036 97	19 141 43	16 895 54
2/26/07	36 036 97	18 127 70	17 909 27
2/26/08	36 036 97	17 053 14	18 983 83
2/26/09	36 036 97	15 914 11	20 122 86
2/26/10	36 036 97	14 706 74	21 330 23
2/26/11	36 036 97	13 426 93	22 610 04
2/26/12	36 036 97	12 070 32	23 966 65
2/26/13	36 036 97	10 632 33	25 404 64
2/26/14	36 036 97	9 108 05	26 928 92
2/26/15	36 036 97	7 492 31	28 544 66
2/26/16	36 036 97	5 779 63	30 257 34
2/26/17	36 036 97	3 964 19	32 072 78
2/26/18	36 036 90	2 039 82	33 997 08
Total	<u>\$468 480 54</u>	<u>\$149 456 70</u>	<u>\$319 023 84</u>

**Note 7 – Deferred Compensation Plan**

The Library does not have a deferred compensation plan.

JORDAN VALLEY DISTRICT LIBRARY  
Charlevoix County, Michigan

NOTES TO FINANCIAL STATEMENTS  
June 30, 2005

Note 8 – Defined Benefit Pension Plan

Plan Description

The Library contributes to the Michigan Employees Retirement System ("MERS"), an agent multiple-employer retirement system that acts as a common investment and administrative agent for municipalities in Michigan. The effective date of transfer of the Library's plan assets of approximately \$73,000 from the City of East Jordan plan to the Jordan Valley District Library plan was June 1, 1991. The Library's payroll for employees covered by MERS for the year ended June 30, 2005, was \$73,044.12 and total payroll for the same period ended was \$101,269.73.

All full-time Library employees are eligible to participate in MERS. Benefits vest after ten years of service. Library employees who retire at or after age 60 with ten years of credited service are entitled to an annual retirement benefit, payable monthly for life.

This is the normal retirement benefit and is equal to a specified percent of a member's final average compensation (a period of 60 consecutive months) multiplied by the number of years of credited service. MERS also provides death and disability benefits. These benefits are established by state statute.

Funding Status and Progress

The amount shown below as the "pension benefit obligation" is a standardized disclosure measure of the present value of pension benefits, adjusted for the effects of projected salary increases and step-rate benefits, estimated to be payable in the future as a result of employee service to date.

The pension benefit obligation was computed as part of an actuarial valuation performed as of December 31, 2004, (date of most recent actuarial report). Significant actuarial assumptions used in the valuation include:

1. The investment return rate in making the valuations was 8% per year, compounded annually. The rate of return is not the assumed real rate of return. The real rate of return is the rate of investment return in excess of the inflation rate. Considering other financial assumptions, the 8% investment return rate translates to an assumed real rate of return of 2.5%.
2. The mortality table used to measure retired life mortality was the 1994 Group Annuity Mortality Table.
3. Total active member payroll is assumed to increase 4.5% a year, which is the portion of the individual pay increase assumptions attributable to inflation. In effect, this assumes no change in the number of active members.
4. The entry age normal cost method of valuation was used in determining age and service allowance actuarial liabilities and normal cost.
5. Valuation assets (cash and investments) were valued using reported book-values for each municipality.
6. The data about persons now covered and about present assets was furnished by the system's administrative staff. Although examined for general reasonableness, the data was not audited by the actuary.
7. The actuarial valuation computations were made by or under the supervision of a Member of the American Academy of Actuaries (MAAA). The assumptions used in the actuarial valuations were adopted by the retirement board after consulting with the actuary.

JORDAN VALLEY DISTRICT LIBRARY  
Charlevoix County, Michigan

NOTES TO FINANCIAL STATEMENTS  
June 30, 2005

Note 8 – Defined Benefit Pension Plan (continued)

Funding Status and Progress (continued)

The assets in excess of pension benefit obligation applicable to Library employees at December 31, 2004, which is the most current information available, is as follows:

Pension benefit obligation:

Retirees and beneficiaries currently receiving benefits	\$22 221
Terminated employee not yet receiving benefits	-
Current employees:	
Accumulated employee contributions including allocated investment earnings	-
Employer financed	<u>79 981</u>
Total pension benefit obligation	102 202
Net assets available for benefits at cost (market \$96,147)	<u>112 998</u>
Unfunded (Overfunded) Actuarial Accrued Liability	<u>(\$10 796)</u>

Actuarially Determined Contribution Requirements and Contributions Made

Actuarial valuations determine a separate contribution requirement for each participating municipality in accordance with the financial objective of contribution rates which will remain approximately level from generation to generation of municipal taxpayers.

The significant actuarial assumptions used to compute the actuarially determined contribution requirement are the same as those used to compute the pension benefit obligation as described above. The employer made contributions to the system for the year ended June 30, 2005, of \$2,520.02, in accordance with actuarially determined requirements computed through an actuarial valuation performance. As of December 31, 2004, the annual required contribution amount for the fiscal year beginning July 1, 2006, is \$3,120.00 using an amortization factor of .119963.

Note 9 – Risk Management

The Library is exposed to various risks of loss related to property loss, torts, errors, omissions, and employee injuries (workers' compensation). The Library has purchased commercial insurance for property loss, torts and workers' compensation claims. Settled claims relating to the commercial insurance have not exceeded the amount of insurance coverage in any of the past three fiscal years.

JORDAN VALLEY DISTRICT LIBRARY  
Charlevoix County, Michigan

BUDGETARY COMPARISON SCHEDULE – GENERAL FUND  
Year ended June 30, 2005

	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual</u>	<u>Variance with Final Budget Over (Under)</u>
Revenues:				
Property taxes	260 936 00	260 936 00	262 674 98	1 738 98
State aid	4 000 00	4 000 00	3 285 83	(714 17)
Charges for services	67 500 00	67 500 00	6 846 04	(60 653 96)
Penal fines	32 000 00	32 000 00	36 117 79	4 117 79
Interest	-	-	6 587 16	6 587 16
Miscellaneous	-	-	8 898 53	8 898 53
Total revenues	<u>364 436 00</u>	<u>364 436 00</u>	<u>324 410 33</u>	<u>(40 025 67)</u>
Expenditures:				
Culture – Library	270 916 00	270 916 00	270 245 09	(670 91)
Capital outlay	53 520 00	53 520 00	-	(53 520 00)
Debt service	<u>40 000 00</u>	<u>40 000 00</u>	<u>39 079 89</u>	<u>(920 11)</u>
Total expenditures	<u>364 436 00</u>	<u>364 436 00</u>	<u>309 324 98</u>	<u>(55 111 02)</u>
Excess of revenues over expenditures	-	-	15 085 35	15 085 35
Fund balance, July 1	<u>25 000 00</u>	<u>25 000 00</u>	<u>420 093 85</u>	<u>395 093 85</u>
Fund Balance, June 30	<u>25 000 00</u>	<u>25 000 00</u>	<u>435 179 20</u>	<u>410 179 20</u>

# CAMPBELL, KUSTERER & CO., P.C.

CERTIFIED PUBLIC ACCOUNTANTS

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## AUDIT COMMUNICATION AND REPORT OF COMMENTS AND RECOMMENDATIONS

RECEIVED  
DEPT. OF TREASURY

DEC 01 2005

September 8, 2005

To the Library Board  
Jordan Valley District Library  
Charlevoix County, Michigan

LOCAL AUDIT & FINANCE DIV.

We have audited the financial statements of the Jordan Valley District Library, for the year ended June 30, 2005. As required by auditing standards generally accepted in the United States, the independent auditor is required to make several communications to the governing body having oversight responsibility for the audit. The purpose of this communication is to provide you with additional information regarding the scope and results of our audit that may assist you with your oversight responsibilities of the financial reporting process for which management is responsible.

### AUDITOR'S RESPONSIBILITY UNDER AUDITING STANDARDS GENERALLY ACCEPTED IN THE UNITED STATES

We conducted our audit of the financial statements of the Jordan Valley District Library in accordance with auditing standards generally accepted in the United States. The following paragraph explains our responsibilities under those standards.

Management has the responsibility for adopting sound accounting policies, for maintaining an adequate and effective system of accounts, for the safeguarding of assets, and for devising an internal control structure that will, among other things, help assure the proper recording of transactions. The transactions that should be reflected in the accounts and in the financial statements are matters within the direct knowledge and control of management. Our knowledge of such transactions is limited to that acquired through our audit. Accordingly, the fairness of representations made through the financial statements is an implicit and integral part of management's accounts and records. However, our responsibility for the financial statements is confined to the expression of an opinion on them. The financial statements remain the responsibility of management.

The concept of materiality is inherent in the work of an independent auditor. An auditor places greater emphasis on those items that have, on a relative basis, more importance to the financial statements and greater possibilities of material error than those items of lesser importance or those in which the possibility of material error is remote.

For this purpose, materiality has been defined as "the magnitude of an omission or misstatement of accounting information that, in light of surrounding circumstances, makes it probable that the judgment of a reasonable person relying on the information would have been changed or influenced by the omission or misstatement."

An independent auditor's objective in an audit is to obtain sufficient competent evidential matter to provide a reasonable basis for forming an opinion on the financial statements. In doing so, the auditor must work within economic limits; the opinion, to be economically useful, must be formed within a reasonable length of time and at reasonable cost. That is why an auditor's work is based on selected tests rather than an attempt to verify all transactions. Since evidence is examined on a test basis only, an audit provides only reasonable assurance, rather than absolute assurance, that financial statements are free of material misstatement. Thus, there is a risk that audited financial statements may contain undiscovered material errors or fraud. The existence of that risk is implicit in the phrase in the audit report, "in our opinion."

To the Library Board  
Jordan Valley District Library  
Charlevoix County, Michigan

In the audit process, we gain an understanding of the internal control structure of an entity for the purpose of assisting in determining the nature, timing, and extent of audit testing. Our understanding is obtained by inquiry of management, testing transactions, and observation and review of documents and records. The amount of work done is not sufficient to provide a basis for an opinion on the adequacy of the internal control structure.

### **SIGNIFICANT ACCOUNTING POLICIES**

The significant accounting policies are described in Note 1 to the financial statements.

### **OTHER COMMUNICATIONS**

Auditing standards call for us to inform you of other significant issues such as, but not limited to, 1) Accounting estimates that are particularly sensitive because of their significance to the financial statements or because of the possibility that future events affecting them may differ markedly from management's current judgments; 2) Significant audit adjustments that may not have been detected except through the auditing procedures we performed; 3) Disagreements with management regarding the scope of the audit or application of accounting principles; 4) Consultation with other accountants; 5) Major issues discussed with management prior to retention; and 6) Difficulties encountered in performing the audit.

We have no significant issues, regarding these matters, to report to you at this time. Audit adjustments were minimal, and are available to review.

### **COMMENTS AND RECOMMENDATION REGARDING INTERNAL CONTROLS/ COMPLIANCE/ EFFICIENCY**

Our procedures disclosed the following conditions that we would like to bring to your attention:

#### **SEGREGATION OF DUTIES**

A separation of duties between persons who authorize transactions and persons who have control over the related assets does not always exist.

The least desirable accounting system is one in which an employee is responsible for executing the transaction and then recording the transaction from its origin to its ultimate posting in the General Ledger. This increases the likelihood that intentional or unintentional errors will go undetected. In most cases, adequate segregation of duties substantially increases control over errors without duplication of effort.

We understand that due to the size of needed staff, a proper segregation of duties may be impractical and the "cost to benefit" relationship may not justify the addition of accounting staff to accomplish the desired segregation.

These conditions were considered in determining the nature, timing and extent of the audit tests to be applied in our audit of the Library's financial statements and this communication of these matters does not affect our report on the Library's financial statements, dated June 30, 2005.

### **SUMMARY**

We welcome any questions you may have regarding the foregoing comments and we would be happy to discuss any of these or other questions that you might have at your convenience.

Sincerely,

*Campbell Kusterer : Co., P.C.*

CAMPBELL, KUSTERER & CO., P.C.  
Certified Public Accountants